

Long-Term Economic Forecast

Leslie Preston, Senior Economist | 416-983-7053

Brian DePratto, Senior Economist | 416-944-5069

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United States

- The COVID-19 pandemic is expected to drive a 4.5% contraction in economic growth this year. Helped by significant monetary and fiscal stimulus, real GDP growth is expected to gain traction in the second half of 2020 and produce a 4.3% gain in 2021.
- The pandemic has already lifted the unemployment rate to an historic level. Despite an expectation for a steady decline in the coming quarters, many sectors of the economy will struggle to return to pre-crisis levels. This will leave the unemployment forecast higher than the counterfactual pre-pandemic outcome over the medium-term.
- The impact of population aging will intensify over the next five years. The adult population that is below the age of 65 is projected to grow by just 0.2% annually. Even as the labor force makes gains among younger adults, lopsided aging demographics will weigh on employment growth, which is anticipated to be just 0.5% over the longer-term – roughly half the pace observed historically.
- In the face of the crisis, the FOMC took its policy rate to the zero-lower bound, and enacted substantial monetary stimulus. We don't expect the FOMC to raise the policy rate until early 2023, and reach 2.0% in early 2026, where it is expected to remain over the forecast horizon.

Canada

- Canada's economy has been hit by a double whammy of weak oil prices and COVID-19. The result will be a 6.1% drop in economic activity this year. However, there are already signs that the economy has bottomed as economic re-openings continue.
- Aided by the unprecedented monetary and fiscal pandemic response, an economic recovery started in May, but will be particularly apparent by the third quarter real GDP data. Provided governments don't turn up the dial again on shutting down business activity in the event of a second wave, we anticipate economic growth of 5.2% next year.
- The severity of the current shock is unprecedented. Economic activity is not expected to return to the pre-crisis level recorded at the end of 2019 until early 2022. Similarly, we expect scarring effects that leave the unemployment rate above the 6% threshold through 2023. This is despite a sizeable near-term downgrade of population and labour force growth that reflects travel restrictions.
- The Bank of Canada has committed to maintaining stimulus "well into the recovery". This means a large balance sheet for several years, and liftoff from the current 0.25% lower bound on the overnight rate that comes only in early 2023. We do not expect the policy interest rate to reach its current estimated neutral level of 1.75% until the end of the forecast window.

U.S. Economic Outlook														
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>														
	Annual Average							Fourth Quarter / Fourth Quarter						
	19	20F	21F	22F	23F	24F	25F	19	20F	21F	22F	23F	24F	25F
Real GDP	2.3	-4.5	4.3	2.7	2.0	1.8	1.8	2.3	-3.8	4.0	2.3	1.9	1.8	1.8
Consumer Expenditure	2.6	-4.3	5.0	2.7	2.1	2.0	2.0	2.7	-2.8	3.7	2.3	2.0	2.0	2.0
Durable Goods	4.8	-6.1	7.3	1.3	1.9	2.8	3.3	5.9	-4.8	4.3	0.9	2.5	3.0	3.4
Business Investment	2.1	-8.2	4.8	4.3	3.4	3.3	3.3	-0.4	-7.1	6.4	3.6	3.4	3.3	3.3
Non-Res. Structures	-4.3	-15.3	1.0	5.7	2.7	2.5	2.5	-6.2	-16.1	8.7	3.9	2.5	2.5	2.5
Equipment & IPP*	4.0	-6.2	5.7	4.0	3.5	3.6	3.6	1.3	-4.6	5.9	3.5	3.6	3.6	3.6
Residential Investment	-1.5	-8.3	-0.1	5.4	2.6	2.3	2.3	1.7	-15.5	9.8	3.8	2.2	2.3	2.2
Govt. Expenditure	2.3	1.5	2.3	1.1	0.2	0.2	0.4	3.0	1.5	1.8	0.8	0.1	0.3	0.4
Final Domestic Demand	2.3	-3.9	4.3	2.7	1.9	1.9	1.9	2.3	-3.1	3.8	2.2	1.8	1.9	1.9
Exports	0.0	-17.0	5.6	5.1	3.4	3.2	3.1	0.3	-18.3	9.8	4.0	3.2	3.2	3.0
Imports	1.0	-14.9	7.3	5.2	3.2	3.5	3.5	-2.1	-13.1	9.4	3.7	3.3	3.6	3.4
Change in Private Inventories	67.0	-81.5	-23.1	-5.1	17.5	24.3	25.1	---	---	---	---	---	---	---
Final Sales	2.2	-3.8	4.0	2.6	1.9	1.8	1.8	2.7	-3.4	3.7	2.2	1.8	1.8	1.8
International Current Account Balance (\$Bn)	-498	-507	-613	-621	-659	-695	-635	---	---	---	---	---	---	---
% of GDP	-2.3	-2.5	-2.8	-2.7	-2.8	-2.8	-2.5	---	---	---	---	---	---	---
Pre-tax Corporate Profits including IVA&CCA	0.0	-28.1	6.9	10.7	10.9	10.7	9.0	2.2	-32.3	16.0	8.6	12.6	9.7	8.5
% of GDP	9.7	7.2	7.3	7.8	8.3	8.9	9.3	---	---	---	---	---	---	---
GDP Deflator (y/y)	1.8	1.0	0.9	1.6	1.9	2.0	1.9	1.6	0.6	1.2	1.7	2.0	1.9	1.9
Nominal GDP	4.1	-3.6	5.2	4.3	4.0	3.8	3.8	4.0	-3.2	5.2	4.0	3.9	3.8	3.8
Labor Force	0.9	-1.6	2.4	1.0	0.6	0.6	0.5	1.0	-1.7	2.5	0.7	0.6	0.6	0.5
Employment	1.4	-5.9	3.9	2.6	1.6	1.0	0.6	1.4	-5.4	4.1	2.0	1.3	0.9	0.5
Change in Empl. ('000s)	2,045	-8,955	5,575	3,766	2,364	1,588	956	2,089	-8,266	5,835	3,042	1,995	1,339	811
Unemployment Rate (%)	3.7	8.5	7.0	5.6	4.7	4.2	4.2	---	---	---	---	---	---	---
Personal Disp. Income	4.3	7.3	1.8	1.7	2.3	3.0	4.0	4.0	6.6	1.4	2.2	2.5	3.3	4.3
Pers. Savings Rate (%)	7.9	17.1	13.7	11.6	10.1	9.2	9.3	---	---	---	---	---	---	---
Cons. Price Index (y/y)	1.8	0.9	1.5	1.7	1.9	2.1	2.1	2.0	0.6	1.7	1.7	2.1	2.1	2.0
Core CPI (y/y)	2.2	1.4	1.2	1.8	2.1	2.2	2.2	2.3	0.9	1.4	2.0	2.2	2.2	2.2
Core PCE Price Index (y/y)	1.6	0.9	0.9	1.5	1.9	2.0	2.0	1.6	0.5	1.1	1.7	2.0	2.0	1.9
Housing Starts (mns)	1.30	1.10	1.23	1.33	1.35	1.37	1.39	---	---	---	---	---	---	---
Real Output per hour** (y/y)	1.9	0.3	0.3	1.4	1.3	1.4	1.7	1.8	-0.5	1.4	1.3	1.3	1.5	1.7

*Intellectual property products. F: Forecast by TD Economics, June 2020.

**Non-farm business sector.

Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Census Bureau, TD Economics.

Canadian Economic Outlook														
<i>Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated</i>														
	Annual Average							4th Quarter / 4th Quarter						
	19	20F	21F	22F	23F	24F	25F	19	20F	21F	22F	23F	24F	25F
Real GDP	1.7	-6.1	5.2	2.0	1.7	1.7	1.7	1.5	-4.6	3.9	1.7	1.7	1.7	1.7
Consumer Expenditure	1.6	-6.2	5.8	1.6	1.5	1.6	1.6	1.7	-3.9	3.5	1.4	1.5	1.6	1.5
Durable Goods	0.4	-11.2	12.3	2.1	1.5	1.5	1.5	0.4	-4.7	6.1	1.5	1.5	1.5	1.5
Business Investment	-0.4	-14.2	4.2	6.3	3.2	2.6	2.4	1.1	-16.0	11.0	4.6	2.8	2.4	2.4
Non-Res. Structures	0.7	-13.2	0.1	6.1	3.2	2.5	2.4	4.2	-19.4	9.5	4.6	2.8	2.4	2.4
Equipment & IPP*	-1.6	-15.1	8.8	6.6	3.2	2.6	2.4	-2.2	-12.2	12.5	4.7	2.8	2.5	2.5
Residential Investment	-0.6	-16.2	8.1	1.9	1.9	1.8	1.8	4.3	-15.8	6.1	1.7	1.9	1.8	1.8
Govt. Expenditure	1.8	0.8	1.3	1.5	1.8	1.8	1.8	1.8	0.8	1.1	1.7	1.8	1.8	1.8
Final Domestic Demand	1.3	-5.9	4.5	2.1	1.8	1.7	1.7	1.8	-4.8	3.7	1.8	1.8	1.7	1.7
Exports	1.3	-9.0	5.2	2.9	2.8	2.7	2.6	0.2	-6.3	3.7	2.9	2.7	2.7	2.5
Imports	0.6	-10.4	3.7	3.2	3.0	2.8	2.7	0.5	-8.3	3.4	3.2	2.9	2.7	2.7
Change in Non-farm Inventories (2012 \$Bn)	12.5	-1.7	2.3	1.9	1.5	1.2	1.0	--	--	--	--	--	--	--
Final Sales	1.2	-5.1	4.3	2.1	1.8	1.8	1.7	2.1	-4.3	3.5	1.9	1.8	1.7	1.7
International Current Account Balance (\$Bn)	-47.0	-36.6	-27.7	-31.4	-33.5	-33.8	-33.4	--	--	--	--	--	--	--
% of GDP	-2.0	-1.7	-1.2	-1.3	-1.3	-1.3	-1.2	--	--	--	--	--	--	--
Pre-tax Corp. Profits	-0.1	-10.8	14.8	4.8	3.4	3.2	3.2	5.5	-8.0	14.2	3.6	3.2	3.2	3.2
% of GDP	12.5	11.7	12.5	12.6	12.6	12.5	12.5	--	--	--	--	--	--	--
GDP Deflator (y/y)	1.9	1.3	1.7	2.0	1.9	1.9	1.9	3.2	0.9	2.0	2.0	1.9	1.9	1.9
Nominal GDP	3.6	-4.9	7.0	4.0	3.6	3.6	3.6	4.8	-3.7	5.9	3.7	3.6	3.6	3.6
Labour Force	1.9	-2.2	3.1	0.8	0.7	0.6	0.6	1.8	-0.7	1.4	0.7	0.7	0.6	0.6
Employment	2.1	-6.6	5.8	1.9	1.2	0.8	0.7	1.8	-5.2	4.8	1.5	1.0	0.8	0.7
Change in Empl. ('000s)	391	-1262	1035	365	229	162	141	340	-998	869	291	196	153	133
Unemployment Rate (%)	5.7	10.0	7.6	6.5	6.0	5.8	5.7	--	--	--	--	--	--	--
Personal Disp. Income	4.5	2.8	1.6	2.9	3.1	3.4	3.4	5.0	1.4	2.3	3.0	3.3	3.4	3.4
Pers. Savings Rate (%)	3.0	11.2	5.9	5.0	4.7	4.5	4.4	--	--	--	--	--	--	--
Cons. Price Index (y/y)	2.0	0.7	1.8	2.3	2.1	2.0	2.0	2.1	0.5	2.1	2.3	2.0	2.0	2.0
CPIX (y/y) **	1.8	1.4	1.8	2.3	2.1	2.0	2.0	1.8	1.3	2.1	2.3	2.0	2.0	2.0
BoC Inflation (y/y) **	2.0	1.1	2.0	2.1	2.0	2.0	2.0	2.1	1.5	2.2	2.0	2.0	2.0	2.0
Housing Starts ('000s)	209	189	196	172	170	180	187	--	--	--	--	--	--	--
Home Prices (y/y)	2.3	2.3	-1.0	0.5	2.0	2.4	2.8	7.6	-1.9	-2.3	2.0	2.0	2.6	2.9
Real GDP / worker (y/y)	-0.4	0.5	-0.6	0.0	0.5	0.9	1.0	-0.3	0.7	-0.9	0.2	0.7	0.9	1.0

F: Forecast by TD Economics, June 2020
 * Intellectual Property Products. ** CPIX: CPI ex. 8 most volatile components. *** BoC Inflation: avg. of CPI-trim, CPI-median, and CPI-common.
 Home price measure shown is the CREA Composite Sale Price.
 Sources: Statistics Canada, Bank of Canada, CMHC, CREA, TD Economics.

Interest Rate Outlook														
	Annual Average							End of Period						
	19	20F	21F	22F	23F	24F	25F	19	20F	21F	22F	23F	24F	25F
U.S. FIXED INCOME														
Fed Funds Target Rate (%)*	2.20	0.25	0.25	0.25	0.65	1.15	1.65	1.75	0.25	0.25	0.25	0.75	1.25	1.75
3-mth T-Bill Rate (%)	1.95	0.10	0.10	0.15	0.55	1.05	1.55	1.52	0.10	0.10	0.25	0.75	1.25	1.75
2-yr Govt. Bond Yield (%)	1.80	0.20	0.30	0.60	1.10	1.60	1.90	1.58	0.20	0.35	0.80	1.30	1.70	1.95
5-yr Govt. Bond Yield (%)	1.80	0.35	0.75	1.30	1.70	1.90	2.05	1.69	0.45	0.95	1.50	1.80	1.95	2.05
10-yr Govt. Bond Yield (%)	2.00	0.70	1.20	1.75	2.00	2.15	2.20	1.92	0.80	1.40	1.90	2.05	2.15	2.20
10-yr-2-yr Govt. Spread (%)	0.20	0.50	0.90	1.15	0.90	0.55	0.30	0.34	0.60	1.05	1.10	0.75	0.45	0.25
CANADIAN FIXED INCOME														
Overnight Target Rate (%)	1.75	0.25	0.25	0.25	0.65	1.15	1.65	1.75	0.25	0.25	0.25	0.75	1.25	1.75
3-mth T-Bill Rate (%)	1.65	0.20	0.20	0.25	0.65	1.20	1.65	1.66	0.20	0.20	0.33	0.83	1.38	1.75
2-yr Govt. Bond Yield (%)	1.55	0.35	0.40	0.70	1.20	1.65	1.85	1.69	0.30	0.45	0.90	1.40	1.75	1.85
5-yr Govt. Bond Yield (%)	1.50	0.45	0.75	1.25	1.65	1.85	1.95	1.68	0.45	0.90	1.45	1.75	1.90	1.95
10-yr Govt. Bond Yield (%)	1.55	0.60	1.05	1.60	1.95	2.05	2.10	1.70	0.65	1.25	1.80	2.00	2.10	2.10
10-yr-2-yr Govt. Spread (%)	0.00	0.25	0.65	0.90	0.75	0.40	0.25	0.01	0.35	0.80	0.90	0.60	0.35	0.25
*Upper bound of target range. F: Forecast by TD Economics as at June 2020.														
Annual averages are the average of the four quarterly end-of-period forecasts.														
Source: Bank of Canada, Bloomberg, Statistics Canada, TD Economics.														

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